MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

PEM0034 – ESSENTIALS OF MACROECONOMICS

8th AUGUST 2022
9.00 a.m. to 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **TEN** (10) pages including the cover page with **40** Multiple Choice Questions (MCQs) and 3 Structured Questions only.

2. Shade your answers for **Section A** in the Multiple-Choice Answer Sheet and **Section B** in the Answer Booklet provided.

3. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

1. Macroeconomics is the study of economics from the viewpoint of
   A. the entire economy.
   B. individual firms.
   C. the individual.
   D. government units.

2. An open economy GDP is given by
   A. Y=C+I+G
   B. Y=C+I+G+NX
   C. Y=C+I+G+T
   D. Y=C+I+G+S

3. For an economy as a whole, income must equal expenditure because
   A. the number of firms is equal to the number of households in an economy.
   B. international law requires that income equal expenditure.
   C. every dollar of spending by some buyer is a dollar of income for some seller.
   D. every dollar of saving by some consumer is a dollar of spending by some other consumer.

4. One bag of flour is sold for $1.00 to a bakery, which uses the flour to bake bread that is sold for $3.00 to consumers. A second bag of flour is sold to a consumer in a grocery store for $2.00. Taking these three transactions into account, what is the effect on GDP?
   A. GDP increases by $2.00.
   B. GDP increases by $3.00.
   C. GDP increases by $5.00.
   D. GDP increases by $6.00.

5. The concept of value added solves the double counting problems in the calculation of the national income by using the
   A. income approach.
   B. aggregate approach.
   C. product approach.
   D. income and product approach.

6. In a circular flow of income in a closed economy with government intervention, leakage consists of
   A. investment and savings.
   B. savings only.
   C. savings and taxes.
   D. savings, taxes and imports.

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Refer to *Exhibit 1* for question no. 7.

Consumption (RM)	Disposable Income (RM)
600	1,000
900	1,500
1,200	2,000

Exhibit 1

7. Refer to *Exhibit 1.* Given the consumption schedule in *Exhibit 1*, the marginal propensity to save is
    A. 0.3
    B. 0.4
    C. 0.5
    D. 0.6

8. In a three-sector economy, the tax function is T = 200, investment function is I = 300, the government expenditure function is G = 250, and the consumption function is C = 150 + 0.8Yd. What is the aggregate expenditure when Y = 3000?
    A. 3100.
    B. 3000.
    C. 2940.
    D. 2850.

9. A combination of a decrease in income tax with an increase in government expenditure will
    A. increase aggregate demand.
    B. decrease aggregate demand.
    C. leave aggregate demand unchanged.
    D. have an ambiguous effect on aggregate demand.

10. The investment demand curve will shift to the left, as the result of
    A. an increase in dividends.
    B. an expansion of technology.
    C. a decrease in business taxes.
    D. a business doubt about future economic condition.

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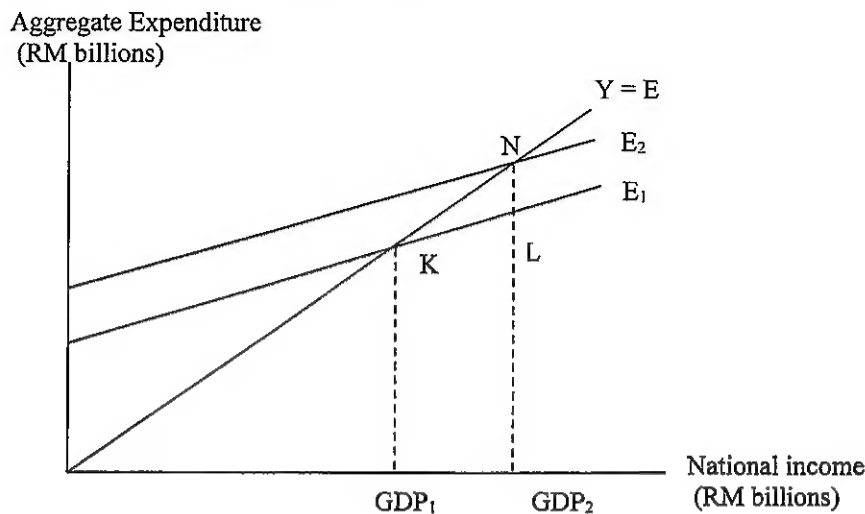
Refer to *Exhibit 2 for* questions no. 11 and 12.

Exhibit 2

11. Refer to *Exhibit 2.* If the economy is currently at point **N**, which of the following could cause it to move to point **K**?
   A. household wealth falls
   B. government expenditures increase
   C. the firm's cash flow rises as profits rise
   D. households expect future income to rise

12. Refer to *Exhibit 2.* Suppose that government spending increases, shifting up the aggregate expenditure line. GDP increases from GDP_1 to GDP_2, and this amount is RM200 billion. If the MPC is 0.8, then what is the distance between *N* and *L* or by how much did government spending change?
   A. RM16 billion
   B. RM40 billion
   C. RM200 billion
   D. RM1,000 billion

13. Which of the following is included in M2 but not in M1?
   A. currency.
   B. savings deposits.
   C. demand deposits.
   D. All of the above are included in both M1 and M2.

14. Two most important financial markets in the economy are
   A. the investment market and the saving market.
   B. the bond market and the stock market.
   C. banks and the stock market.
   D. financial markets and financial institutions.

Continued...

15. The demand curve for money
    A. shows the amount of money balances that businesses wish to hold at various interest rates.
    B. reflects the open market operations policy of the central bank.
    C. shows the amount of money individuals and businesses wish to hold at various price levels.
    D. reflects the discount rate policy of the central bank.

16. According to the liquidity preference theory, an interest rate is determined by
    A. the commercial bank's liquidity ratio.
    B. the quantity of money offered by the central bank.
    C. society's tendency to save.
    D. demand and supply of money.

17. If money supply increases, with others held constant,
    A. interest rate will rise.
    B. interest rate remains unchanged.
    C. interest rate will fall.
    D. the price level will fall.

18. A business cycle goes through four phases. Which of the following is the sequence of a typical business cycle?
    A. Peak, trough, recession and recovery.
    B. Recovery, recession, through and peak.
    C. Recession, trough, recovery and peak.
    D. Trough, recovery, recession and peak.

19. Inflation changes the existing pattern of distribution of income and wealth in a society where some groups are relatively better off than others. The people who stand to gain from continuous inflation are ____
    A. people dependent on fixed income
    B. debtors because the real value of money has changed
    C. holders of government bonds, fixed deposits in banks, life insurance policies and money
    D. creditors because when they received the money owed to them, the real value of the money will be less

20. If the consumer price index (CPI) is 147.3 in 2018 and 143.8 in 2017, what is the rate of inflation between 2017 and 2018?
    A. 0.024%.
    B. 0.24%.
    C. 2.43%.
    D. 0.432%.

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21. Demand-pull inflation occurs when the _____ shifts to _____ .
    A. aggregate demand curve; the right in full employment.
    B. aggregate demand curve; the left in full employment.
    C. aggregate supply curve; the left.
    D. aggregate supply curve; the right.

22. Which of the following can cause cost-push inflation?
    A. An increases in consumption.
    B. An increase in the price of raw materials.
    C. An expansion in bank credit.
    D. An increase in government expenditure.

23. _____ is not caused merely by the excess of demand over supply but built into an economy due to the government's monetary policy.
    A. Imported inflation
    B. Structural inflation
    C. Cost-push inflation
    D. Cost-pull inflation

24. What does "full employment" mean?
    A. Consists of frictional and structural unemployment.
    B. Every person who wants to work has a job.
    C. Approximately eighty per cent of people have jobs.
    D. Those who want to work have full-time jobs.

25. Both Lonna and Sasha lost their jobs because their skills became obsolete due to technological innovation. This describes
    A. disguised unemployment.
    B. structural unemployment.
    C. cyclical unemployment.
    D. frictional unemployment.

26. What type of unemployment can best be described as "short-term unemployment when new entrants and re-entrants enter the labour market to look for jobs"?
    A. Frictional unemployment.
    B. Seasonal unemployment.
    C. Technological unemployment.
    D. Structural unemployment.

27. What is the definition of a discouraged worker?
    A. A person who has been sacked and it temporarily out of job.
    B. A person who leaves the job market and has no success in finding a job after a long time.
    C. A person who works part-time and is looking for a full-time paid job.
    D. A person who is currently not working, due to structural changes.

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28. The natural rate of unemployment consists of
    A. frictional and cyclical unemployment.
    B. frictional and classical unemployment.
    C. frictional and structural unemployment.
    D. seasonal and cyclical unemployment.

29. All of the following statements are true, except
    A. frictional unemployment occurs when workers are between jobs.
    B. structural unemployment occurs as a result of changing production methods.
    C. seasonal unemployment occurs because trade unions negotiate for higher wages.
    D. cyclical unemployment is a serious unemployment, leading to a lack of aggregate demand in recession.
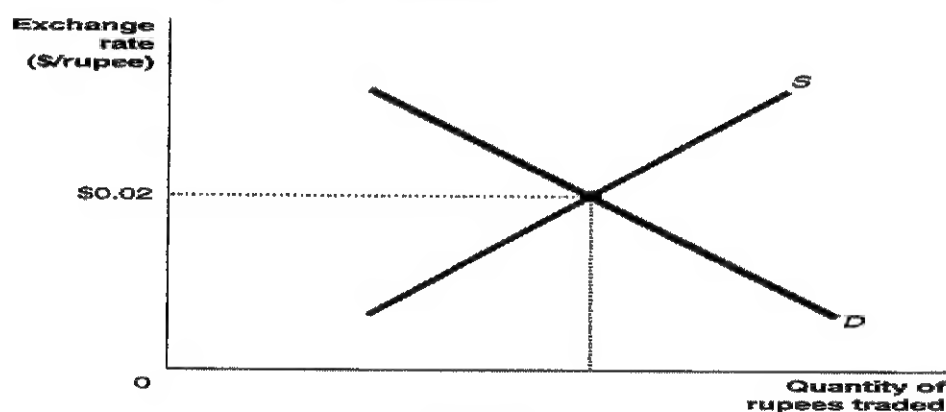
Refer to *Exhibit 3* to answer for question no.30.

Exhibit 3

30. Based on *Exhibit 3*, which of the following is **TRUE**?
    A. The rupee is overvalued at exchange rates less than $0.02/rupee.
    B. U.S imports are more expensive at exchange rates greater than $0.02/rupee than at the equilibrium exchange rate.
    C. To achieve an exchange rate greater than $0.02/rupee in a fixed Exchange Rate system, the Reserve Bank of India must buy surplus dollars with rupees.
    D. Indian exports to the United States are more expensive at exchange rates greater than $0.02/rupee than at the equilibrium exchange rate.

31. The term of trade reflects the _____.
    A. difference between invisible imports and invisible exports
    B. ratio at which nations will exchange two types of goods
    C. gains from trade that will be equally divided
    D. none of the above

Continued...

32. The exchange rate that will be determined by the forces of supply and demand is known as the _____.
    A. swap market system
    B. gold standard system
    C. Bretton Wood's system
    D. floating exchange rate system

33. If the Dollar gains value with respect to the Euro what would we expect to observe?
    A. U.S imports decrease and U.S investment abroad increases.
    B. U.S imports increase and foreign investment in the U.S increases.
    C. U.S exports decrease and foreign investment in the U.S decreases.
    D. None of the above.

34. An appreciation of the Malaysian ringgit will lead to
    A. a decrease in the prices of Malaysia's imports and exports.
    B. an increase in the prices of Malaysia's imports and exports.
    C. a decrease in the prices of imported goods, but an increase in the prices of exported goods in Malaysia.
    D. an increase in the prices of imported goods, but a decrease in the prices of exported goods in Malaysia.

35. A tax imposed by a government on imported goods is to _____.
    A. protect local producers from foreign competitors
    B. protect local consumers from buying imported goods
    C. protect foreign firms from being compete with local firms
    D. protect foreign consumers from buying imported goods

36. The main reason why one nation trades with another is to _____.
    A. save its natural resources from rapid exhaustion
    B. achieve the gains of specialization
    C. abolish the danger of retaliation from other nation
    D. develop political alliances

37. Under a system of floating exchange rates, a shortage in a currency will lead to an
    A. appreciation of that currency
    B. depreciation of that currency
    C. long-term surplus of that currency
    D. long-term shortage of that currency

Continued...

38. If net interest and net transfers are RM0, and a nation's purchases of foreign goods and services are RM3.5 billion while its sales of goods and services to foreigners are RM4.5billion, _____ .
    A. its capital account shows a surplus
    B. it has a RM1 billion deficit in its current account
    C. it has a RM1 billion surplus in its current account
    D. it has a RM1 billion surplus in its balance of payments

39. Deficits in the balance of payments can be solved by _____ .
    A. increasing government spending
    B. lowering interest rates
    C. discouraging imports
    D. raising indirect taxes

40. The difference between a country's _____ exports and its _____ imports is the balance of trade.
    A. total; total
    B. total; service
    C. service; service
    D. merchandise; merchandise

SECTION B: STRUCTURED QUESTIONS (60 marks)

Instruction: Answer all questions in the answer sheet provided.

QUESTION 1 (20 marks)

a) The power of commercial banks to create credit is limited by a few factors. Describe **three (3)** limitations of credit creation process.   (12 marks)

b) At the market equilibrium interest rate, the quantity of money demanded is equal to the quantity of money supplied. Using money market diagram, state how each of the following changes affect the quantity of money demanded and supplied.

    i.   the interest rate increase (above equilibrium level)   (4 marks)

    ii.   the interest rate decrease (below equilibrium level)   (4 marks)

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QUESTION 2 (20 marks)

a) **Exhibit 4** shows the Consumer Price Index (CPI) of Malaysia according to region between the years of 2018 and 2020.

Year	Consumer Price Index (CPI)		
	Peninsular	**Sarawak**	**Sabah**
2018	103.5	104.0	103.7
2019	105.6	105.8	105.9
2020	109.7	110.5	110.2

Exhibit 4

    i. Find the inflation rate in Peninsular, Sarawak and Sabah in the years 2019 and 2020.   (12 marks)

    ii. Based on (i), identify the trend of inflation rates between Peninsular, Sarawak and Sabah in the years 2019 and 2020.   (2 marks)

b) Demonstrate **three (3)** negative effects of unemployment on the society.   (6 marks)

QUESTION 3 (20 marks)

a) Discuss **three (3)** advantages from international trade.   (9 marks)

b) Justify **two (2)** economic reasons why a country adopts a protectionism policy.
                                      (4 marks)

c) **Exhibit 5** shows the table of output that can be produced by Country South and Country North.

Country	Radio (unit)	Television (unit)
South	500	300
North	400	300

Exhibit 5

Assume the resources are divided equally between the two productions.

    i. Explain which country has the absolute advantage in producing radios and televisions respectively.   (2 marks)

    ii. Find the opportunity cost of producing one radio and one television by each country.   (5 marks)

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